FRACTIONAL CURRENCY COLLECTORS BOARD
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December 20, 1990

DECEMBER 1990 NEWSLETTER

1) Please note change of mailing address above...I HAVE moved. Please use the letterhead address in future correspondence. My new telephone number is 216-446-9662.

2) The 1991 Memphis meeting dates have not been set but will most likely be on Saturday during the Memphis Coin Show. Watch their announcements for details and plan to be with us there.

3) Enclosed you will find a list of members. In addition your $10 dues for 1991 can be paid in advance, and there is a dues envelope attached pre-addressed to our Treasurer for your convenience in paying your dues early.

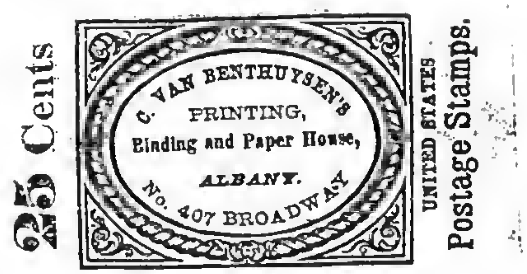
4) You all should have received a letter from Doug Hales with an order blank for the 1991 Fractional Currency Boxes. Just in case you mislaid your order or want to increase your order, a second copy is attached.

5) Attached are:-
- Copies of an interesting letter written by Spinner, courtesy of Ken Keller.
- Copy of Doug Hales' data on the "Kessler Sale".
- Reprint of a book review covering Neil Carother's "Fractional Money".
- Copy of an article from "Paper Money" by Ronald Horstman. The article discusses the monetary situation during the Fractional Currency period.
- Photocopier pictures of a new "Enveloped Postage" envelope discovered and owned by one of our members. It has been assigned Number #7A in our catalog system.

6) Have a great holiday period -See some of you at F.U.N.

M.R. Friedberg.

Dec90new.Ltr



Catalog Number	7A
Paper	WHITE (ALMOST TISSUE THIN)
Ink	BLACK
Commentary	UNITED STATES \ POSTAGE STAMPS. (VERTICAL ON RIGHT)
Used By	C.VAN BENTHUYSEN'S PRINTING BINDING PAPER,
Address	No. 407 BROADWAY ALBANY (NY)
Numerical Value	25
Word Value	Cents.
Value Message	25 Cents. (VERTICAL ON LEFT)
Flap Printed	NO
Pedigree	DKH

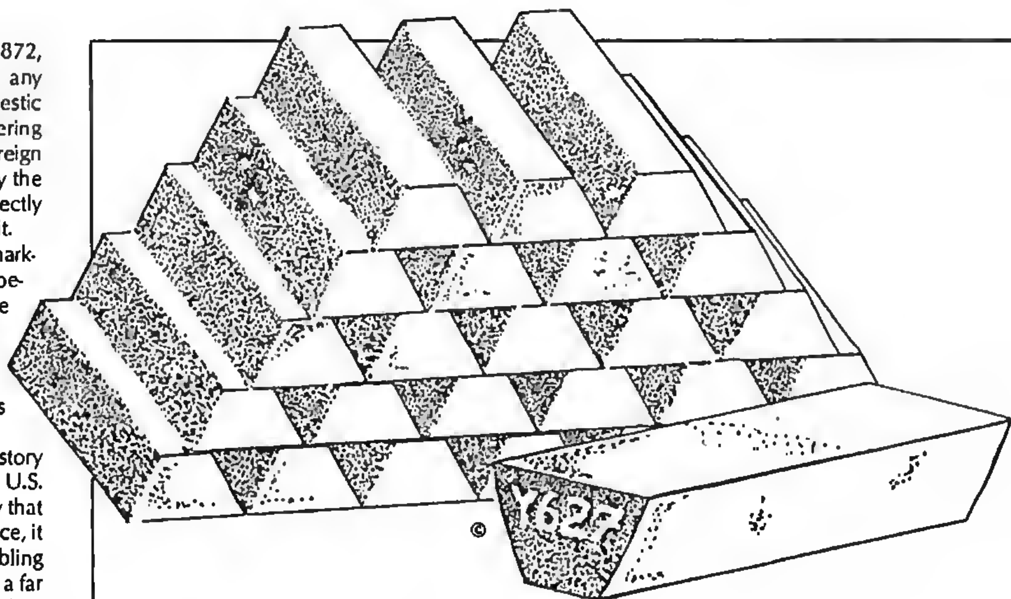
The Story Behind Our Money

Fractional Money is much more than the history of pocket change— *It's the story of how the government mismanaged its money*

BY R.W. BRADFORD

Few people realize that prior to 1872, American coins never circulated to any appreciable extent. The needs of domestic commerce were met by a bewildering array of tokens, bank notes, and foreign coins. What few coins were manufactured by the U.S. Mint more often than not were turned directly over to brokers who exported them for profit.

The history of American coinage is to a remarkable extent the history of government incompetence and chicanery. Neil Carothers tells the story with scholarship and panache in his now classic *Fractional Money*, originally published in 1930 and recently brought back into print by the numismatic publisher Bowers and Merena.



▲ In the real world, the amount of gold that is equal in value to one ounce of silver today will be worth a bit more or less tomorrow. That's why the government's attempt at bimetallism—fixed at a rate of 15 to 1—failed.

Fractional Money is much more than a history of pocket change. It is the story of how the U.S. government mismanaged its money so badly that for nearly the first century of national existence, it left commerce without anything even resembling a uniform circulating currency. Coins played a far more important role in commerce in the past than they do today. Paper money was not issued by the federal government until the Civil War, and during the next half century it played a relatively minor role. Only with the creation of the Federal Reserve System in 1914 and its growing power in succeeding years did the U.S. dollar became a paper commodity, backed only by the promises of politicians. Before then, it was a unit of metal.

But what metal? In the late eighteenth century, two metals were commonly used in coins: gold and silver. Each was easily minted, fairly scarce, and valued for its beauty...each was a suitable metal for coins. Not surprisingly, coins were minted of both metals, and the monetary unit defined as a fixed amount of either of the two.

Government can no more legislate the price of gold in terms of silver than it can legislate the price of anything else.

Needless to say, this attempt at bimetallism failed. Price is a market phenomenon. In the real world, the prices of all commodities fluctuate constantly. The amount of gold that is equal in value to one ounce of silver today will be worth a bit more or a bit less tomorrow. Government can no more legislate the price of gold in terms of silver than it can legislate the price of anything else. The early history of American coinage is the history of politicians' failure to understand this simple fact.

Originally, silver and gold were fixed at a 15 to 1 ratio; that is, one dollar face value of silver coin weighed 15 times one dollar face value in gold. In 1792, this approximated the ratio in the marketplace, but by the end of the decade, the ratio in the market had risen to 15.75. U.S. gold coins were overvalued, and consequently driven from circulation.

The silver dollar fared little better. Although intended to approximate the silver content of the Spanish dollar (as minted in Mexico), it actually contained slightly less silver.

However, the difference was small and the coin attractive, so it was accepted at par in the West Indies. Yankee traders quickly learned that they could swap their U.S. dollars for the heavier Spanish dollars in the Indies, then take the Spanish dollars to the U.S. Mint and have them recoined (at no cost to themselves) into a larger quantity of U.S. dollars, which they could take to the Indies to swap for even more Spanish dollars. This endless chain was cut in 1804 when Jefferson ordered the Mint to stop the manufacture of silver dollars altogether.

For the next thirty years, the only coin issued by the Mint in any quantity was the silver half dollar. But thanks to the requirement that the Mint strike the coins at no charge and the limit on appropria-

tions, the number of half dollars minted was so small that it was used mainly as a reserve currency by banks.

In the early days of the Republic, Congress was so leery of government induced inflation that it actually legislated what amounted to a *tri*-metallic system. The original law, written by Alexander Hamilton, provided for a copper cent weighing in at 264 grains, which would make it nearly the size of an old-style silver dollar! Washington reduced this clumsy and bulky coin to a more practical size by executive order in 1795.

For the next 65 years, Congress authorized and the Mint coined a variety of coins that simply failed to meet the demands of commerce, and the nation continued to get by as it had prior to independence, with a motley variety of tokens, paper money and foreign coins, with an occasional almost accidental interruption for the circulation of U.S. coins. For example, in 1851 the minting of tiny 3 cent silver coins was authorized by Congress to facilitate the sale of postage stamps. At the time

Carothers' work is of immense value to anyone interested in American history, monetary history, or the history of coinage.

silver was overvalued and had been driven from circulation, but through a Congressional oversight the 3 cent coins (nicknamed "fish scales") contained less silver than other silver coins and thus could circulate as subsidiary coinage. These quickly became virtually the only non-gold coins in circulation: Carothers cites newspaper accounts of people paying for an inexpensive item with a $5 gold piece and receiving a ladle of more than a hundred of the tiny coins as change.

The inflation of the Civil War drove *all* coins from circulation. (They were replaced with lightweight tokens and postage stamps.) It was not until the general revision of the coinage laws of 1873 that a sensible system of coinage was created, and then it was only by accident. As a result of lobbying by competing interest groups and sheer serendipity, Congress abolished the standard silver dollar, and authorized a new coin, the "trade dollar," intended to circulate in the Orient, withdrew authorization for the silver dollar, and made smaller silver coins redeemable in gold. The trade dollar was not redeemable in lawful money; its legal tender status was at first limited to $5 and later abolished.

Taken together, the effect of these measures was to abolish bimetallism and put the U.S. on the gold standard, thereby enabling a sound dollar and a genuinely subsidiary coinage for the first time in American history.

Carothers writes from the perspective of a classical liberal familiar with the virtues of the gold standard. His work is of immense value to anyone interested in American history, monetary history, or the history of coinage. And it is a genuine pleasure to read.

Reprinted from Liberty *magazine.*

— SECOND COPY —

November 21, 1990

Fellow F.C.C.B. Members:

During the past two years, we have had walnut Fractional Currency Boxes, with a facsimile of a fractional note etched in steel on the top, made by Karl Bertelsen of Perma Etch in Tallahassee, Florida. The first was the face of the fourth issue 10 cent note and the second was the face of the fourth issue 50 cent Lincoln note.

As noted in the July newsletter, it was the wish of the F.C.C.B. members at the Memphis meeting to have a box made this year with the First Issue, 10 cent note on the top. The inside dimensions of the box will be approximately 6 1/4" in width by 4" high, so the box can be used to hold fractional currency in standard mylar holders.

Arrangements have been made with Mr. Bertelsen to make these boxes. The etching will be made from a first issue Proof that I will furnish. The price per box will be $30 if the total number of orders exceeds 24. If the quantity does not exceed 24, the price will be $35 each. The price includes shipping costs. Those of you interested in purchasing boxes, please complete the order form below and send it to:

Douglas Hales
3810 Eric Court
Lakeland, Fl. 33813

DO NOT send any money. You will be invoiced by Mr. Bertelsen when he ships the boxes. I will accept orders until the 10th of January, 1991. Shipment of the boxes should take place in February.

Looking forward to hearing from you.

Regards,

Doug

Douglas Hales, President F.C.C.B.

FIRST ISSUE TEN CENT FRACTIONAL CURRENCY BOXES

Number of Boxes________ Date____________
Name:____
Address:____
City:____________________State________Zip_____________

Treasury of the United States:
Washington, March 8, 1869.

Dear Sir: —

Your letter of yesterday's date has been received. —

I can do nothing without having papers from some of your citizens doing business at your Post Offices. — If you will send me such papers, I will present them to the Post Master General. —

Very respectfully Yours,
F. E. Spinner

Col. Ezra Graves,
Herkimer, N.Y.

I picked up a F E Spinner letter the other day. There are two water marks on it. A large shield surrounded by stars, with 'E Pluribus Unu — curved above, in the written side of the letter. The blank side of the page shows a "Carew Co" water mark.

Yours truly
Kenneth Keller
9040 Kinsman-Pymatuning Rd
Kinsman, OH 44428

P.S. Another letter to go with Martin Dengirki's letter in the July '91 Newsletter
KK

NATIONAL cU.S.TOMS NOTE

by RONALD L. HORSTMAN

Numismatist and Financial Historian

INTRODUCTION

Perhaps nothing stimulates research as much as owning something that you know nothing about. After I acquired a proof impression of the $50 one-year note of 1863 with the words "National Customs Note" bronzed on the face, I decided to learn as much as I could about this proposed issue.

A note such as this is illustrated in Gene Hessler's book, *U.S. Essay, Proof and Specimen Notes*, with a brief statement as to its possible intended use. Hopefully, this article will further enlighten the reader as to the circumstances and intended uses of this issue.

FINANCING THE WAR

AS the year 1863 unfolded, the War Between the States raged on. Both sides were experiencing great difficulty raising funds to pay for military activities. The Federal government had issued several types of securities since 1861, including:

Long Term Bonds
Short Term Treasury Notes (some of these paid interest)
Legal Tender Notes (some of these were convertible into 20-year U.S. bonds)

Despite the revenue generated by these issues, the expenses of the War kept mounting. Legislation to raise additional funds was introduced in the House Ways and Means Committee on January 8. It was felt that it would be impossible to continue the War with gold and silver alone. More notes and bonds would be needed, as well as curtailment of the large issue of state bank notes in circulation, some of doubtful value and many completely worthless. The public debt was then almost $800 million, and it was estimated that this figure would reach $2 billion by July 1, 1864.

On March third, after long debate, an act was finally passed which authorized the Secretary of the Treasury to borrow, at his discretion, $300 million for the remainder of the fiscal year and $600 million for the next fiscal year starting on July 1.

The act authorized coupon or registered bonds, treasury notes, United States notes, fractional currency and gold certificates. Also provided for was a ten percent per annum tax on the circulation of all banks and corporations. This law was the basis for issuing the one- and two-year interest-bearing legal tender notes as well as compound interest notes.

GAINING CONTROL

Up to this time all bonds and notes issued by the Federal government had been engraved and printed by the New York bank note companies; the largest of these was American Bank Note Company, followed closely by the National Bank Note Company. These two institutions had been formed by a consolidation of most of the country's bank note companies controlling the talent, experience and capital, which had been producing state bank notes for four decades.

Congress, on July 11, 1862, had granted the U.S. Treasury power to execute this work within the department. Secretary Chase designated Spencer M. Clark, a former clerk in the Bureau of Construction, to investigate the expenses and possible problems connected with assuming the production of securities. This endeavor almost proved the downfall of Clark. The bank note companies first offered him a bribe to report that it would be impractical for the U.S. Treasury Department to engrave and print notes and securities. When he refused, they brought charges of fraud and sexual promiscuity against him, in an attempt to have him discredited and removed from his position. A Congressional investigation headed by James A. Garfield later cleared Clark of all of their allegations.

Initially, the transfer of printing only fractional currency (also termed "revenue currency" in the original documents) was proposed. Clark estimated that the government could prepare this issue for less than one-fourth of the amount that the bank note companies had been charging, and with greater security. After due consideration, Chase approved this plan on October 10, 1862. The function of preparing passports and Post Office drafts was later assumed by this newly-created printing bureau within the Treasury Department.

When the Treasury was requested to prepare bonds for a new loan in April 1863, Clark was forced to admit that he lacked the resources at that time to prepare such a large issue, and suggested to Chase that the plates be prepared in New York and the printing could then be done within the Printing Bureau of the U.S. Treasury. Both the American and National Bank Note Companies sensed that this was erosion of their monopoly, and refused to be a part of this plan unless they were allowed to complete all processes. A relatively new company, the Continental Bank Note Company (also in New York), agreed to Clark's plan and was given the contract to prepare the bond plates. The two major bank note companies, finally realizing that half a loaf was better than none, agreed that they would also prepare a set of plates.

Another argument put forth by Clark in favor of the government producing its own currency was that the bank note companies generated excess profits by printing a very low number of impressions per plate per day. When a large number of issues were needed they insisted on preparing additional plates. Clark felt that if the Treasury Department were to employ a second or even a third shift of printers, he could produce 2,000 impressions per day, compared to the 600 per day previously done by the bank note companies.

PRODUCTION

The first notes to be produced under this new arrangement were the one- and two-year, five percent interest-bearing notes. Bids were solicited from the major bank note companies and the contract for engraving the plates of the $50 one-year note was awarded to American Bank Note Company on August 27, 1863. The total cost of face, back and overprint plates was $6,030.50. The four-subject plate and preparation stock was delivered to the Treasury on December 2, and on Decembmer 16 a proof of the note was submitted to Secretary Chase for his approval. The face plate bore the imprint of American Bank Note Company. If subsequent plates were needed they were to be produced within the Treasury Department using the stock furnished by American Bank Note Company. These replacement plates would have the words "Treasury Department" engraved upon them instead of the name of the bank note company. Printing of the one-year notes began on January 28, 1864 at a cost of $20 per thousand as opposed to $57.50 per thousand previously paid to the bank note companies. A total of 170,032 $50 one-year notes, with a value of $8,501,600, was delivered to the Treasurer by the Treasury's Printing Bureau; only 164,800 were ultimately placed in circulation. Since the original plates could produce up to 30,000 impressions and could be reengraved to provide another 25,000, in all probability a second plate was never needed for this denomination.

CIRCULATION

The one- and two-year notes of 1863 were intended to be held as an investment but could circulate if necessary because of their legal tender status. Their five percent interest was payable in currency rather than coin as was the case with earlier treasury notes, but because they were not acceptable for duties on imports, their value depreciated as the value of gold increased. They were stamped with the date of issue, the interest and principle payable upon redemption one or two years later.

The April 1864 issue of the *Journal of Banking, Currency and Finance* states that 50 million of the five percent interest-bearing notes were paid out to banks in repayment of a loan that had been made to the government on September 5, 1863. At this time the interest rate was in the range of seven to eight percent, so the banks, rather than retaining these notes, paid them out as currency. Meanwhile, the government was also paying these notes out daily to satisfy their debts. As long as interest rates remained high they freely circulated, but by the summer of 1864 some $211 million worth had been issued, increasing the currency supply and causing interest rates to drop. When this happened the notes were worth holding for the five percent interest.

THE SUBJECT

Figure 1 is a uniface proof on eggshell toned paper with four oblong cancellation holes. It is from plate position "B" bearing no date of issue, seal, green overprint or serial numbers. In accordance with Spencer Clark's suggestion, the signatures of the Treasury officials were printed on the note. The words "National Customs Note" were bronzed onto the paper, in large block letters, before the face was printed. It was probably produced in early 1864 while the plates were still in use for printing interest-bearing notes.

Figure 1. Loyalty, *on the left, by artist Joseph I. Pease, was engraved by W.W. Rice. The portrait of Alexander Hamilton was engraved by Owen G. Hanks (ed.)*

THE PURPOSE

It had always been necessary to establish a relationship between gold and paper money to ensure the latter's acceptance. The first currency issued by the United States government, intended for general circulation, were the demand notes of July and August of 1861. They were receivable as payment of duties on imports. Prior to this issue, only coin, mostly gold, could be received for these payments. The demand notes became known as "Custom House Notes" because their obligation placed them on a par with gold. The Act of February 1862 authorized an issue of legal tender notes; these notes were not receivable as payment for duties on imports, but could be converted into five percent, 20-year bonds with both interest and principal payable in gold. A second series of legal tender notes was authorized by the Act of March 3, 1863, which were not convertible into bonds. The date of July 1, 1863 was designated as the time when the convertibility of the earlier issue into bonds would cease.

This inconvertibility of the legal tender notes, plus a large increase in the circulating medium, led to a rise of $2.50 in the price of gold in June of 1864; the legal tender notes were then worth only 40 cents on the dollar in gold.

One possible reason for adding the words "National Customs Note" to the $50 one-year note would have been to indicate that it was receivable for the duties on imports, thereby establishing its relationship to gold.

Section 5 of the Act of March 1863 provided that "certificates representing coin in the Treasury may be issued in payment of interest on the public debt." The act further stated that "certificates for coin or bullion in the Treasury shall be received at par in payment for duties on imports."

The note illustrated would have served both purposes. The designation "National Customs Note" would insure that it would be the same as gold ("receivable at par", therefore not subject to depreciation), and make it acceptable "in payment for duties on imports." It also represented "coin or bullion in the Treasury" and was issued "in payment of interest on the public debt."

A paste-up of a proposed $50 note is illustrated (Figure 2, courtesy of Gene Hessler) which offers a different solution to this need. Dated April 10, 1864 the obligation reads "The U.S. will pay to bearer Fifty Dollars on demand by presenting this note as Gold Coin for duties on imports."

Neither of these proposals or models were accepted to meet the requirements of the Act of March 3, 1863; instead, the gold certificates of 1865 were issued.

Figure 2. The Civil War Zouave, *by artist F.O.C. Darley, was engraved by Joseph I. Pease.* Constitution, *the figure in the center, is the work of artist T.A. Liebler; it was engraved by Alfred Sealey and Joseph I. Pease. The* Sailor, *by Louis Delnoce, was engraved by Charles Burt. The obligation within the two shields reads: "Will pay the bearer FIFTY DOLLARS on demand by receiving this Note as GOLD COIN for duties on imports." (ed.)*

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